

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY TOKYO IMMEDIATE
INFO AMEMBASSY PARIS

C O N F I D E N T I A L STATE 217534

STADIS////////////////////////////////////
TOKYO FOR COOPER FROM BOEKER, PARIS FOR MEISSNER

E.O. 11652: GDS

TAGS: EINV, IMF, IBRD

SUBJECT: INVESTMENT IN THE DEVELOPMENT COMMITTEE (DC)

1. I UNDERSTAND THAT FRED BERGSTEN, WHO WILL BE HEADING
THE U.S. DELEGATION TO THE PARIS MEETING OF THE DC
DEPUTIES, INTENDS TO RAISE THIS SUBJECT WITH YOU IN TOKYO
THIS WEEKEND. THE ISSUE IS THE TERMS OF REFERENCE FOR
DC WORK ON DIRECT INVESTMENT, WHICH AUSTRALIA HAS
SUGGESTED BE MAJOR DC AGENDA ITEM.

2. THE BERGSTEN PROPOSAL FOR TERMS OF REFERENCE UNDER
DISCUSSION IS AS FOLLOWS:

-- THE DEVELOPMENT COMMITTEE DIRECT INVESTMENT STUDY
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SHOULD EXAMINE THE NATURE AND ROLE OF DIRECT INVESTMENT
IN DEVELOPING COUNTRIES, FOCUSING BOTH ON THE CONTRIBUTION
OF DIRECT INVESTMENT TO THE DEVELOPMENT PROCESS AND
APPROPRIATE GOVERNMENT POLICIES VIS-A-VIS FOREIGN
INVESTORS. AS A BASIS FOR DISCUSSION, THE SECRETARIAT
COULD PREPARE A PAPER OR A SERIES OF PAPERS COVERING THE
FOLLOWING TOPICS:

- (A) RECENT TRENDS IN FOREIGN INVESTMENT, INCLUDING AGGREGATE INVESTMENT LEVELS, COUNTRY AND SECTOR TRENDS,

AND NEW INVESTMENT TECHNIQUES (FOR EXAMPLE, GREATER RELIANCE ON MANAGEMENT CONTRACTS).

- (B) A REVIEW OF DIRECT INVESTMENT REGULATIONS AND PRACTICES IN DEVELOPING COUNTRIES WITH A VIEW TO DETERMINING THEIR IMPACT ON THE INVESTMENT CLIMATE IN AND THE FLOW OF INVESTMENT TO THE LDCS. THIS WOULD INCLUDE THE EFFECT OF BOTH INVESTMENT INCENTIVES AND DISINCENTIVES AS, FOR EXAMPLE, PERFORMANCE CRITERIA ESTABLISHED FOR FOREIGN FIRMS (INCLUDING MINIMUM JOB AND EXPORT QUOTAS, "LOCAL CONTENT" RESTRICTIONS, AND CONTROLS ON CAPITAL REPATRIATION).

- (C) AN EXAMINATION OF OTHER FACTORS AFFECTING THE FLOW OF FOREIGN INVESTMENT (I.E., SIZE OF MARKETS, NATURAL RESOURCES, ETC.).

- (D) DETAILED CASE STUDIES OF CERTAIN RAPIDLY DEVELOPING COUNTRIES (BRAZIL, TAIWAN, ETC.). IN THESE STUDIES, AN ATTEMPT WOULD BE MADE TO (1) ASSESS THE ROLE OF DIRECT INVESTMENT IN PROMOTING ECONOMIC GROWTH, (2) DETERMINE THE EFFECT OF GOVERNMENT POLICIES
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ON THE INVESTMENT CLIMATE AND THE POLICIES AND PRACTICES OF FOREIGN INVESTORS.

3. JULES AND I DID NOT HAVE AN OPPORTUNITY TO DISCUSS WITH FRED HIS PROPOSAL FOR TERMS OF REFERENCE BEFORE FRED LEFT FOR TOKYO. I CERTAINLY AGREE THAT THE DEVELOPMENT COMMITTEE IS A POTENTIALLY USEFUL FORUM FOR DISCUSSING INVESTMENT ISSUES. HAVING A USEFUL INVESTMENT DIALOGUE IN THE DEVELOPMENT COMMITTEE COULD BE ESPECIALLY IMPORTANT SHOULD WORK IN THE UN TRANSNATIONAL COMMISSION GO BADLY. I THEREFORE THINK IT IS A GOOD IDEA TO TAKE A RELATIVELY AMBITIOUS APPROACH TO INVESTMENT WORK IN THE DC AND TO USE THE AUSTRALIAN INITIATIVE TO THIS END. THE TRICK HERE WILL BE TO DO IT LIGHTLY. IF THE LDCS SENSE A MAJOR PUSH ON INVESTMENT IN THE DC, THEY WILL BE POLITICALLY COMPELLED TO ACT IN EITHER TWO WAYS: THEY WOULD EITHER VETO THE WHOLE EFFORT OR INSIST ON INJECTING ALL OF THEIR ISSUES RELATING TO INVESTOR BAD BEHAVIOR, UNWARRANTED POLITICAL INTERVENTION BY FOREIGN FIRMS AND THEIR HOME GOVERNMENTS AND SO FORTH. HAVING THIS IN MIND, MY ONE CONCERN WITH THE PROPOSAL ON TERMS OF REFERENCE IS POINT B.

I SUGGEST WHEN YOU DISCUSS THIS WITH FRED THAT YOU ASK HIM TO RECAST POINT B IN MORE GENERAL FORM OR TO FOLD IT INTO POINT D. IF B AND D WERE COMBINED, THE FOCUS WOULD BE TO CONCENTRATE ON ANALYSES AND EXAMPLES OF THOSE KINDS OF REGULATORY CLIMATES IN LDCS THAT HAVE WORKED,

I.E. ATTRACT ADEQUATE FOREIGN INVESTMENT.

4. YOU MIGHT ALSO ADD TO THE TERMS OF REFERENCE AN ITEM CALLING ON THE DC TO EXAMINE THE NATURE AND USE OF A DISPUTE DEVELOPMENT MECHANISM IN THE INVESTMENT AREA AND, IN PARTICULAR, TO CONSIDER HOW THE USE AND EFFECTIVENESS OF THE INTERNATIONAL CONVENTION ON THE SETTLEMENT OF INVESTMENT DISPUTES (A WORLD BANK CONFIDENTIAL

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APPENDAGE) CAN BE ENHANCED. VANCE

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Message Attributes

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